

Message Text

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ACTION EB-07

INFO OCT-01 EA-07 ISO-00 PA-01 PRS-01 ABF-01 FS-01 AID-05

CIAE-00 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02

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C O N F I D E N T I A L TOKYO 13657

PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: GDS

TAGS: EFIN, JA

SUBJECT: TOKYO FOREX MARKET DEVELOPMENTS SEPT 22-26

1. WEEK BEGAN WITH VERY STRONG DEMAND FOR DOLLARS ON TOKYO FOREX MARKET WITH RATE RISING QUICKLY TO 303 YEN/DOL DURING HECTIC MONDAY SESSION WHICH SAW SPOT VOLUME JUMP TO \$378 MIL (VERSUS AVE. SPOT VOL OF \$94 MIL SOR SEPT 1-19 PERIOD). BOJ INTERVENED HEAVILY, REPORTEDLY SUPPLYING \$340 MIL TO SPOT MARKET THAT DAY. FORWARD DOL MOVED TO STRONG PREMIUM, APPARENTLY RELECTING REVISED EXPECTATIONS OF TOKYO BANKS AND TRADING COMPANIES ABOUT MEDIUM-TERM STRENGTH OF DOL ON WORLD MONEY MARKETS.

2. IN FOLLOWING DAYS OF ABBREVIATED 4-DAY TRADING WEEK, SPOT VOL DECLINED BUT DOL REMAINED CLOSE TO NEW BOJ INTERVENTION LEVEL OF 303.00 YEN/DOL. IN FACT, SPOT RATE BRIEFLY HIT HIGH OF 305.00 YEN/DOL DURING MID-DAY TRADING TUESDAY, SEPT 23, BEFORE BOJ INTERVENED. ALTHOUGH SPOT (OVERNIGHT) EXCHANGE RATE DECLINED FRACTIONALLY LATER IN WEEK, FORWARD DOL REMAINED BETWEEN 305 AND 306 ON 2-MO, 3-MO, AND 6-MO MARKETS.

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3. BOJ OFFICIAL SAID ABOUT TWO-THIRDS OF UNUSUALLY LARGE DOL DEMAND IN SPOT (OVERNIGHT) MARKET ON MONDAY, SEPT 22, WAS FOR DOL SETTLEMENT PRIOR TO WED HOLIDAY. HOWEVER, REMAINING THIRD (I.E. ABOUT \$130 MIL) OF DEMAND REPRESENTED PURCHASES IN ANTICIPATION OF STRONGER DOL. OFFICIAL NOTED THAT WHILE LARGER FLUCTUATIONS OF DOL VIS-A-VIS EUROPEAN CURRENCIES DID INFLUENCE TOKYO MARKET ASSESSMENT OF OVERALL DOL STRENGTH, MINOR MOVEMENTS TEND TO BE SEEN AS REFLECTING "ADJUSTMENTS" OF THESE CURRENCIES RATHER THAN FUNDAMENTAL MOVEMENT OF DOL AND CONSEQUENTLY DO NOT AFFECT MARKET HERE.

4. FOLLOWING ARE DATA FOR OVERNIGHT SPOT (CENTRAL) AND FORWARD DOLLAR EXCHANGE RATES AND INTERBANK TRADING VOLUMES FOR SEPT 22-26:

	CENTRAL SPOT RATE (YEN/DOL)	FORWARD DOLLARS (PREMIA IN PCT P.A.) 2-MO	3-MO	6-MO	SPOT VOL (MIL DOL)
SEPT 22	303.00	6.53	4.82	2.64	378
23	303.00	4.36	3.30	2.15	129
24	---- HOLIDAY ----				
25	302.70	4.56	3.37	2.11	90
26	302.55	3.87	3.24	2.21	99

WEEKLY FWD FOL WAS \$608 MIL, AND SWAP VOL WAS \$407 MIL

5. FINATT TOLD IN FONFIDENCE THAT BOJ ESTIMATES SEPT NET OUTFLOWS OF LONG-TERM CAPITAL WILL SWELL TO \$318 MIL COMPARED WITH NET OUTFLOW OF ONLY \$10 MIL IN AUG AND INFLOW OF \$148 MIL IN JULY. THIS SWING DUE TO HEAVY DIRECT INVESTMENTS ABROAD, LOANS TO FOREIGNERS, AND TO SHRINKING CAPITAL INFLOWS AS FOREIGNERS HAVE BECOME NET SELLERS OF JAPANESE SECURITIES (APPARENTLY DUE TO STOCK MARKET SLUMP AND GLOOMY ECONOMIC PROSPECTS HERE). MOREOVER, JAPAN ALSO MAKING NET PAYMENTS ON SHORT-TERM NON-MONETARY TRADE CREDITS BECAUSE, AS IMPORTS SHRINK PAYMENTS ON MATURING 4-MO CREDITS EXCEED NEW CREDITS AGAINST CURRENT MONTH'S IMPORTS. CONFIDENTIAL

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6. DESPITE THESE CAPITAL FLOW PROSPECTS, BOJ IS GIVING NO CONSIDERATION AT THE PRESENT TIME TO CHANGING CAPITAL CONTROLS (I.E. INCREASING FLOW OF IMPACT LOANS OR AUTHORIZING MORE BOND ISSUES ABROAD), ACCORDING TO BOJ FOREIGN DEPT DIR HAYAMI. THE LOWER YEN RATE WOULD GIVE A SLIGHT BOOST TO JAPAN'S EXPORTS AND HELP

THE GOJ'S ANTI-RECESSION MEASURES. REASON FOR LOWERING YEN INTERVENTION RATE ON 9/18 AND 9/22 WAS IN RESPONSE TO EXCESS DOL DEMAND AND PESSIMISTIC ESTIMATE OF FUTURE DOL SUPPLY. THUS, WHEREAS 298 RATE HAD BEEN HELD BY HEAVY INTERVENTION THROUGH AUG, IT WAS APPARENT THAT STRONG FALL EXPORT SEASON WOULD NOT MATERIALIZE. THEREFORE, BOJ BELIEVED THAT DOL DEMAND SHOULD BE MET THROUGH MARKET RATHER THAN CONTINUED INTERVENTION AND NEW EQUILIBRIUM POINT WAS SOUGHT. DROP IN INTERVENTION RATE OF 3 YEN AND THIS WEEK BY 2 YEN WAS CONSISTENT WITH EUROPEAN INTERVENTION POLICIES OF NOT PERMITTING MORE THAN ONE PERCENT CHANGE PER DAY. OFFICIAL ADMITTED THAT BOJ PROVIDED 80 PERCENT OF DOL SUPPLY ON SEPT 22, VERY LITTLE ON SEPT 23, AND NONE THE REMAINDER OF THE TRADING WEEK. ON FRI MARKET STRENGTHENED ON ITS OWN FROM AN OPENING OF 302.85 TO A CLOSING OF 302.03. THIS IS CONSIDERED A SIGN THAT THE PRESENT LEVEL IS CREATING A
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BW WINDING OF PREVIOUS LEADS AND LAGS AND PERHAPS IS SUSTAINABLE IN THE WEEKS AHEAD. OFFICIAL COMMENTED ON DIFFICULTY EVEN UNDER FLOATING RATE IN DECIDING LEVEL AT WHICH EXCHANGE MARKET FORCES CAN BE KEPT IN BALANCE.
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